

Nepal Country Report – Growing Green and Decent Jobs

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1. Country Profile

Nepal has a population of 27 million people and a per capita income of less than US\$ 650. Nepal is among the poorest countries in the world and currently ranks 157 out of 187 countries on the Human Development Index. Despite making significant progress in peace building since 2006, including progress on some of the Millennium Development Goals (MDGs) relating to maternal and infant mortality, reducing inequality and on some other measures of poverty, an estimated 47% of children under-five suffer from malnutrition.¹

Economic growth in Nepal has been moderate by developing country standards. Real GDP growth averaged between 3% and 4% over the last decade.² For much of that period, a major source of national income has been remittances sent home from migrant workers, which boosted domestic consumption. Remittances are estimated to be equivalent to 25-30% of GDP. While this represents critical capital inflow, there are grave concerns about recruitment procedures, working conditions, lack of respect for workers' rights and decent work deficits in several of the countries that host migrant workers from Nepal.

There is a high degree of uncertainty about Nepal's economic outlook, and this is reflected in a diversity of economic growth forecasts. For example, the IMF projected GDP growth of 3.75% for 2011-12 and growth around or slightly below 4% in the next few years.³ However, the World Bank has suggested growth may reach 5% in 2011-12. This would represent a considerable improvement from the 3.5% growth recorded in 2010-2011 and would be the second highest growth rate in the post-conflict era.⁴ Growth projections for Nepal depend heavily on the outlook for agriculture, which is influenced by climatic conditions, and geopolitical factors in the region that impact the tourism industry.

Both the IMF and World Bank have praised Nepal for its prudent fiscal management in recent years while urging policy makers to implement reforms that would encourage increased foreign direct investment and increased domestic investment. In the five years to 2009, net Foreign Direct Investment (FDI) in Nepal averaged only 0.1% of GDP as compared to an average of 1.9% for low-income developing countries. Given the importance of agriculture, improving the efficiency of irrigation systems will continue to be critical to increase agricultural productivity, incomes, and rural livelihoods.

The labour market in Nepal, as in many developing countries, is characterised by relatively low levels of open unemployment but massive under-employment. Informal economic activity, precarious work and very low wages are key features of the labour market. Violations of fundamental workers' rights are widespread, including discrimination on the grounds of gender. Economic and social relations in Nepal continue to be governed by deeply entrenched ethnic, caste and gender-based hierarchies. Child labour continues to be a major social issue and national challenge.

¹ World Bank, "Nepal Country Overview", 2012.

² IMF, "Nepal 2011 Article IV Report", November 2011.

³ IMF, World Economic Outlook, April 2012.

⁴ World Bank, op. cit.

Youth unemployment and underemployment remain important issues to be addressed for the future stability and prosperity of the country. According to the latest National Labour Force Survey, the under-utilisation rate of 15-24 year-olds is almost 40%. The under-utilisation rate is a combination of unemployment, time-related underemployment, inadequate earnings and the mismatch in skills.

The Government of Nepal's Three Year Plan (2010-2013) states that:

“It is the need of the day to bring the youths as a potential source of energy and catalysts in building

New Nepal by providing them with appropriate opportunities for employment and self-employment.”

Reliable and recent information on wage trends is difficult to obtain in Nepal. The minimum wage increased by 30% in nominal terms in 2010-11, but this was the first adjustment in three years. Nepal has a history of infrequent adjustments to the minimum wage. Over the past 30 years, the minimum wage has been adjusted just 11 times. The lengthy time lags between adjustments have entailed significant reductions in the real value of the minimum wage and workers' purchasing power, followed by fairly significant wage jumps to catch up lost ground. More regular adjustments would better preserve the real value of the minimum wage and better support the living standards of workers as well as avoid sharp upward shocks to labour costs, such as the last 30% increase in the minimum wage and an increase of similar magnitude that took place in mid-2006.

Low domestic wages and poor employment prospects are underlying causes of large scale international migration. Of the annual 450,000 new labour force entrants, around two-thirds seek overseas employment. Some 1.9 million people have registered as overseas workers. Three million are estimated to be working abroad. India, Nepal's neighbour and major trading partner, and the Gulf Countries are major destinations for Nepalese seeking work. It is estimated that about 75% of the registered overseas workers are engaged in unskilled low paying jobs⁵. Abuse of migrant workers is common and a key concern for trade unions in Nepal as is the effective registration and regulation of all Agencies engaged in the recruitment and placement of migrant workers from Nepal overseas.

Political stability has been a major challenge for the last two decades. The country is undergoing a prolonged political transition following a 10-year armed conflict that ended in 2006. The drafting of a New Constitution and the integration of former Maoist combatants into the national security forces has required the coordination of social, political and economic priorities. The New Constitution, with a deadline of May 27, 2012, should result in a significant political restructuring of Nepal into a federalist state. Elections both at national and local levels are planned after the Constitution is promulgated.

Labour-related institutions are weak, and the social security system has been inadequate to address several key problems⁶:

- the dramatic expansion of exploitive forms of contract work, to avoid paying the minimum wage and employment conditions as specified in labour laws or collective contracts;
- widespread evasion of the labour laws through other mechanisms;

⁵World Bank. *Migration and Remittance Factbook 2011*.

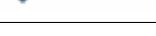
⁶ Robert Kyloh, “From Conflict to Cooperation: Labour market reforms that can work in Nepal”, ILO, 2008.

- inadequate social protection (including social assistance, unemployment benefits, redundancy payments, etc.) to support workers who may become unemployed if the current labour laws are made more flexible; and

-inadequate mechanisms to resolve workplace and industrial disputes and the workers subsequently resorting to strike action.

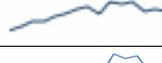
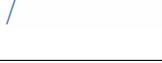
Resolving these would have profound implications in terms of economic confidence, investment and growth; law and order and political stability; and the continued success of the peace process. The close relationship between more mature industrial relations and peace has been recognised by all the political parties in Nepal. The Comprehensive Peace Agreement (CPA) of November 2006 explicitly refers to the need for an improved industrial relations environment. Both the CPA and Interim Constitution of January 2007 commit the new Nepal to respect international labour standards concerning collective bargaining and worker's rights.⁷

Key Indicators

Indicators	Var	Initial	Trend	Latest
GDP per capita, PPP (constant 2005 international \$) 1	▼ 14%	1400 (2001)		12,00 (2010)
Energy use (kg of oil equivalent) per \$1,000 GDP (constant 2005 PPP)	▼ 23%	426 (1990)		329 (2009)
CO₂ emissions (metric tons per capita)	▲ 370%	0.03 (1990)		0.2 (2009)
Unemployment, total (% of total labor force)	▲ 17%	15.7 (1999)		18.3 (2009)
Literacy rate, adult total (% of people ages 15 and above)	▲ 25%	44.5 (1999)		55.6 (2009)
Electricity, Gas and Water Supply employment	▲ 319%	26,000 (1999)		109,000 (2009)
Construction employment	▲ 7%	344,000 (1999)		367000 (2009)
Transport, Storage and Communications employment	▲ 47%	135,000 (1999)		198000 (2009)
Manufacturing employment	▲ 40%	553,000 (1999)		773000 (2009)
Agriculture employment	▲ 21%	7,190,000 (1999)		8701000 (2009)
Hours actually worked (employees, men & women)	▼ 1%	39(1999)	-	38.7 (2009)
Earnings per hour – Dollar (employees, men & women)	▲ 139%	Rs. 8.93(1999)	-	Rs. 21.32 (2009)

⁷ILO, "Technical Memorandum to the Government of Nepal on Reform of Labour Market Regulation", October 2011.

Labour market and other selected indicators by sector

CONSTRUCTION	Var	Initial	Trend	Latest
Gross Value Added (constant \$2001)	▲25%	345977011 (2001)		430871530 (2009)
Hours actually worked (employees, men & women)	▲6%	45.6 (1999)	-	48.2 (2009)
Earnings per month – Rupee (employees, men & women)	-	-	-	2,298 (1999)
Compensated injuries (total)	-	-	-	-
AGRICULTURE	Var	Initial	Trend	Latest
Gross Value Added (including hunting, forestry and fishing - constant \$2001)	▲23%	2079526787 (2001)		2559806326 (2009)
Hours actually worked (agriculture, hunting and forestry - employees, men & women)	▼6%	38.3 (1999)	-	35.9 (2009)
Earnings per month – Rupee (employees, men & women)	▲103 %	Rs. 2109 (1999)	-	Rs. 4276 (2009)
Compensated injuries (total)	-	-	-	-
ENERGY / WATER	Var	Initial	Trend	Latest
Gross Value Added (data includes Mining, Manufacturing & Utilities - constant \$2001)	▲57%	104800540 (2001)		164622337 (2009)
Hours actually worked (employees, men & women) – Electricity, Gas & Water supply	-	-	-	44.2 (1999)
Earnings per month – Rupee (employees, men & women)– Electricity, Gas & Water supply	-	-	-	3,373 (1999)
Compensated injuries (total) – Electricity, Gas & Water supply	-	-	-	-
Renewable internal freshwater resources per capita (cubic meters)	▼29%	9,877 (1992)		7,007 (2007)
CO2 emissions (metric tons per capita)	▲370 %	0.03 (1990)		0.2 (2009)
Fossil fuel energy consumption (% of total)	▲115 %	5.06 (1990)		10.9 (2008)
ENVIRONMENT (Other indicators)	Var	Initial	Trend	Latest
Forest area (% of land area)	▼25%	33.7 (1990)		25.4 (2010)
Arable land (% of land area)	▲2.8%	16 (1990)		16.4 (2008)

2. Choosing sectors with strong economic, employment, social and environmental potential

For the purpose of this study four sectors have been selected to demonstrate the potential and dramatic variation for job creation from green investment scenarios. The four sectors examined in Nepal are energy, construction, water and agriculture.

Poor energy access and reliability of electricity are major barriers to growth and development in Nepal. It is estimated that only 18% of Nepal's population has access to electricity, and there is a dramatic disparity between rural and urban access to energy. This is despite the fact that Nepal has one of the largest untapped hydropower resources in the world, with an estimated 83,000 megawatts (MW) of hydropower potential. Less than 1% of this potential is currently harnessed.

Firewood is the main source of energy, providing more than 70% of energy consumption, and is highly inefficient and poses major environmental threats.

The Government of Nepal has submitted a bill concerning the electricity regulatory body to the Parliament (Constituent Assembly-CA). The aim is to improve the functioning of electricity production, transmission and distribution, to develop competition in the electricity market and to protect consumer rights. However, to date, no action has been taken to enact the bill. Nepal currently has no national energy strategy. However, all the governments formed after the CA elections suggested ambitious programs to develop hydro power that includes 10,000-20,000 MW power generation within 2 decades. Construction of two hydro-electric projects, namely the Chameliya Hydro-electric Project and the Kulekhani-III Hydro-electric Project, are in progress.

Appropriate investment in the energy sector makes sound economic and environmental sense, but the energy sector is highly capital intensive, and thus investment in this sector has a very limited employment impact.

By comparison with the energy sector, construction in Nepal is labour intensive. Investment in this sector would serve vital economic and social interests. For example, a critical problem in Nepal is the lack of transport connections between villages. Over one-third of the people living in the hills are more than four hours away from an all-weather road. Consequently, most transport is by foot on roughly made tracks. Maintaining and upgrading these tracks is vital to facilitate market access for local producers, increase tourism and to enhance access of rural people to basic health, education and other social services.

Nepal has access to significant water resources, but the management of these resources in a sustainable and efficient manner is a matter of concern. Nepal has an integrated water resources strategy, and two of the stated policy principles relevant to river basin management are as follows: (a) development and management of water resources to be undertaken in a holistic and systematic manner; (b) water utilisation to be sustainable to ensure conservation of resources and protection of the environment. As in other areas of public policy, implementation of these principles remains problematic. Consequently, appropriate additional investment in the water sector is desirable.

Like many least developed countries, Nepal continues to rely heavily on the agriculture sector. Agriculture is the basis of the majority of the population's livelihoods, and employment and is closely linked to a number of other sectors. One significant component of agriculture with

scope for the development of green jobs is the forestry sector. In fact, 40% of all land in Nepal remains forested. As a result, forests play a vital role in maintaining ecological balance as well as providing economic opportunities for development in Nepal. The forest is a major source of energy, animal fodder and timber. Many non-timber forest products (such as herbs and medicinal plants) are grown and collected by people in rural areas as the major source of their income.

Aggregated impacts of green investments amounting to 2% of GDP:

Investment USD	Investment local currency (LC)	1 yr Job creation	Share of employment	Average Jobs per Mn \$ invested	Average Jobs per Mn LC invested
\$153,735,655	11,921,464,299	65,904 - 89,165	0.6% – 0.8%	429 - 580	6 - 7

Sectoral impacts of green investments:

	Energy	Construction	Water	Agriculture
Investment Shares	30%	20%	30%	20%
Job creation	564 - 762	22,713 - 30,729	6,546 - 8,856	36,082 - 48,816
Jobs / Mn \$	12 - 17	739 - 999	142 - 192	1,173 - 1,588
Jobs / Mn LC	0.16 – 0.21	10 - 13	1.8 - 2.5	15 - 20

3. Analysis of key impacts of green investment in the sectors analysed

This study looks at what the potential impact would be on employment of investing 2% of the GDP each year in green interventions in the four economic sectors mentioned above. In addition, a series of policy interventions were identified for each sector in order to ensure that jobs created comply with decent work: opportunities for work that are productive, deliver fair incomes and security in the workplace, social protection for families, better prospects for personal development and social integration, freedom for people to express their concerns, organise and participate in the decisions that affect their lives and equality of opportunity and treatment for all, women and men.

Following the methodology that is described in Annex 1, it can be seen in the table above that between 66,000 and 89,000 jobs could be created from investing 2% of GDP each year in these four sectors. The level of additional jobs created each year would represent between 0.6% and 0.8% of total employment.

The sectoral impacts table shows in greater detail the level of job creation in each of the four sectors. 30% of the available investment directed to the energy sector could generate between 564 and 762 jobs annually. This is a very low rate of return because the energy sector is highly capital intensive. The investment in the water sector is also relatively capital intensive,

and the allocation of 30% of the total investment to this sector yields job creation of between 6,546 and 8,856 each year. By comparison, the construction and agriculture sectors are highly labour intensive, and the resulting job creation in these sectors dramatically exceeds that of the other two sectors. Greening the agriculture sector has the potential to rebuild natural capital by restoring and maintaining soil fertility; reduce soil erosion; increase water-use efficiency; and decrease deforestation, biodiversity loss and other land use impacts. It has a vital role in increasing food production and decent job potential with long term sustainability, as still more than two thirds of Nepal population is engaged in the agriculture sector.

The methodology used in this study suggests that it is possible to generate up to 100 times more jobs in the agriculture sector compared to the energy sector with a comparable level of investment.

4. Making these jobs decent & investments sustainable

The vast majority of workers in Nepal do not enjoy decent working conditions. Wages are low, employment conditions are poor and often unsafe, and abuses of worker rights are common. Nepal is fortunate to have relatively strong trade unions but most other labour institutions are under-resourced and fail to carry out their functions effectively. In particular, the labour inspection system and the labour courts are not in a position to ensure that labour laws and collective agreements are complied with. These labour institutions require significant strengthening to ensure that labour laws and collective agreements are implemented.

The current representation of women in the energy, construction and water sectors is low. Women's participation in the agriculture sector is heavily concentrated in subsistence and informal rural production, not in higher valued-added production or food processing.

Nepal has far to go in order to provide universal access to affordable, quality health care. This means that in order to ensure that jobs created comply with the definition of decent work, it is fundamental to broaden the implementation of a national health insurance plan that would facilitate the health coverage of workers in formal and especially informal work settings.

Equally, when it comes to retirement and savings plans, a majority of workers in Nepal are excluded. Most workers in these four sectors do not have the opportunity to contribute towards any retirement schemes. Household incomes are expended on immediate food, energy and other basic family needs.

5. Conclusions

- Labour registration at the local body should be compulsory as with other vital registration and the identity card (ID) should be issued by the concern authority.
- Regular adjustment of minimum wage of the workers should be compulsory. It should be based on the Central Bank's Consumer Price Index, which would better support the living standards of workers as well as avoid sharp upward shocks to labour costs.
- The proposed Social Security Fund should immediately be brought into operation in order to provide workers equitable benefits from what is already collected but so far not an ideal sum.
- Connecting all welfare schemes with the social security system, medical treatment should be provided through all hospitals for the workers based on their ID card if they are not covered by any health benefit schemes.

- With regards to OSH matters, accidental benefit should be provided through workplace injuries' schemes, and provision of life insurance should be made compulsory to all workers.
- With regards to promotion, training and retraining of workers, a skill test mechanism should be established, and a system of skill test certification should be awarded.
- Equal maternity leave to all should be assured by the government including paternity leave for male workers.
- In order to make the poverty alleviation program effective, workers' representation in decision making bodies from local (Village Development Council) to national level (Parliament) should be instituted. There should be a separate desk to address labour issues at the National Planning Commission as well.
- Government should create an investment-friendly policy to promote green jobs through bio-diesel production and organic farming. This could generate multiple positive effects in employment creation and help reduce emissions and minimise health hazards as well as bring about a general improvement in the climate change situation.
- A workers' awareness campaign on green jobs should be promoted.
- Focus on expansion of clean industry is essential including cleaning of High Himalayas.
- A detailed study of occupational diseases is necessary, as there is an absence of analytical studies in this area.